

# Q4 2017



## City of Upland Sales Tax *Update*

*First Quarter Receipts for Fourth Quarter Sales (October - December 2017)*

### Upland In Brief

Upland's receipts from October through December were 3.5% above the fourth sales period in 2016.

The City experienced a strong sales quarter for building and construction, with increases in multiple categories including building materials and plumbing/electrical supplies.

Revenue from autos and transportation was enhanced in the fourth quarter by low interest rates on long term financing options and abundant availability. Revenue from service stations continues to grow with steady price increases at the pump due to global crude oil and the implementation of SB-1.

General consumer goods reported a sluggish holiday sales quarter with losses reported for sporting goods/bike stores, specialty stores and home furnishing. A business closure depressed totals from business services, while drugs and chemicals reported a down turn in receipts.

The City's share of the countywide use tax pool decreased 9.1% when compared to the same period in the prior year.

Net of aberrations, taxable sales for all of San Bernardino County grew 4.1% over the comparable time period; the Southern California region was up 3.5%.

### SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Mountain View Chevrolet
AT&T	
Bed Bath & Beyond	Nordstrom Rack
Chevron	Stater Bros
Circle K	Target
Dick's Sporting Goods	TJ Maxx
Euclid Arco	Toys R Us
Ford of Upland	Ultra Beauty
Holliday Rock	USA Gasoline
Home Depot	Verizon Wireless
Kohls	Vons
Lowes	Vons Gas
Marshalls	Walmart

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$9,107,202	\$9,356,169
County Pool	1,117,573	1,161,059
State Pool	5,165	1,711
Gross Receipts	\$10,229,939	\$10,518,939

### California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.4% higher than the holiday quarter of 2016.

Rising fuel prices and solid gains from building/construction supplies, restaurants and e-commerce were the primary contributors to the overall increase. A healthy quarter for auto sales and construction equipment were additional factors. Tax revenues from general consumer goods sold through brick and mortar stores rose a modest 1% over last year's comparable quarter while receipts from online sales increased 13.2%.

Performance for the inland areas of the state were generally stronger than the coastal areas which had earlier recovered from the previous downturn.

### Nexus Issue to be Revisited

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that businesses lacking a physical presence or "nexus" in a state cannot be required to collect or remit that state's taxes. This does not excuse buyers from paying a corresponding use tax but the costs of enforcement, particularly on smaller purchases, is difficult and local brick and mortar retailers are placed at a competitive disadvantage.

California has been more effective at collecting use tax than most states with an aggressive program of auditing major business purchases, requiring CPA's to report unpaid use tax on client's annual returns and requiring businesses with annual gross receipts of \$100,000 or more to register for the purposes of reporting use tax.

The State has also increased the number of out-of-state sellers required to collect sales tax through broader definitions of what constitutes physical presence including a requirement that larger internet retailers collect and remit sales tax if paying a commission for customer referrals obtained via a link on a California seller's website.

Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are

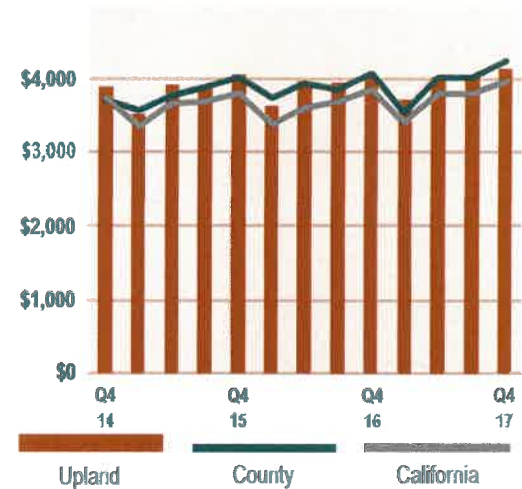
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state of \$697 Million: (<https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf>).

Congress has refused to act on numerous attempts to seek legislative relief over the last two decades. However, three justices – Clarence Thomas, Neil Gorsuch and Anthony Kennedy have recently expressed doubts about the *Quill* decision with Kennedy noting in 2015, that the ruling has produced a "startling revenue shortfall" in many states as well as "unfairness to local retailers and customers."

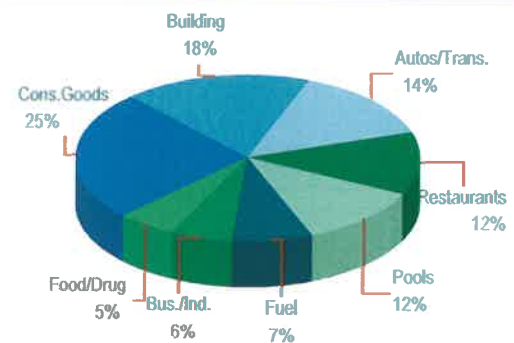
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

### SALES PER CAPITA



### REVENUE BY BUSINESS GROUP Upland This Quarter



### UPLAND TOP 15 BUSINESS TYPES

*In thousands of dollars				
Business Type	Upland		County	Hdl. State
	Q4 '17*	Change	Change	Change
Auto Repair Shops	58.1	19.1%	8.6%	3.6%
Building Materials	363.0	3.7%	14.8%	11.6%
Casual Dining	167.0	1.0%	9.5%	3.5%
Contractors	— CONFIDENTIAL —		15.4%	14.0%
Convenience Stores/Liquor	74.0	2.2%	2.6%	8.3%
Department Stores	102.5	-1.9%	-6.7%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —		2.2%	4.1%
Electronics/Appliance Stores	87.1	2.9%	17.4%	5.8%
Family Apparel	72.1	3.3%	0.3%	2.1%
Grocery Stores	85.8	10.8%	-0.4%	-1.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-2.0%	2.6%
Quick-Service Restaurants	206.6	7.7%	4.3%	5.0%
Service Stations	265.3	14.5%	11.1%	11.4%
Specialty Stores	150.1	-4.4%	2.9%	4.4%
Sporting Goods/Bike Stores	59.5	-16.3%	-17.7%	-8.5%
<b>Total All Accounts</b>	<b>3,176.1</b>	<b>2.9%</b>	<b>5.1%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>421.1</b>	<b>8.4%</b>	<b>10.8%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>3,597.2</b>	<b>3.5%</b>	<b>5.7%</b>	<b>3.6%</b>